COMMISSION OF THE EUROPEAN COMMUNITIES

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THE CRISIS IN THE ZINC INDUSTRY

(Working Document of the Commission)

SHORT-TERM MEASURES TO COMBAT THE CRISIS IN THE ZINC INDUSTRY

I. The current situation and its causes

The Community zinc industry has presented the Commission with a request for action by the public authorities to help overcome the crisis currently facing the industry.

Following that request, the Commission departments have examined the situation with representatives of the industry and of the Member States' economic affairs and industry ministries via both individual contacts and at separate meetings with the trade and the ministries and lastly at a joint meeting held on 12 May.

It is clear from this examination that the present situation is disturbing.

The price per tonne of zinc is around $ 550 while costs are approximately $ 750, if not more. At the present rate of production, the losses being incurred by Community producers exceed $ 200 million per year. This corresponds to the loss of a third of their capital resources each year.

In these circumstances, those producers that do not belong to conglomerates will be on the verge of bankruptcy in two or three months' time.

Despite this, the costs of European producers are extremely competitive; indeed, at the present price, only 7 % of world consumption can be met without financial loss - by one or two producers that have very advantageous mine locations.

The crisis situation is the result of two main factors.

First of all, the free world's consumption of zinc fell from 4.6 million t in 1974 to 3.6 million t in 1975.

Consumption then recovered to reach 4.2 million t in 1976 and 1977.

However producers overestimated the recovery and adopted excessive production rates. This has led to the building up of commercial stocks of more than a million tonnes. In particular, the stocks held by the producers have increased from 212 000 t at the end of 1973 to 845 000 t at the end of 1977. These stocks incur heavy financial charges for the producers and weigh heavily on the level of prices.

Trade has not up to now been a factor in the present crisis in the Community. Indeed, the EEC's exports increased from 122 000 t in 1974 to 208 000 t in 1977 while imports fell over the same period from 268 000 t to 246 000 t.

In contrast to all the other metals, the Community's zinc industry has a very large domestic raw materials base. Ireland and Greenland provide approximately 40 % of its supplies and their reserves promise a very appreciable improvement in the Community's future self-supply rate. The crisis in the zinc industry is having repercussions on the Community mining industry, both as regards prices and quantities, and could soon lead to mine closures in Ireland.

II. The internal market

All the Community producers and all the national delegates recognize the seriousness of the situation and consider that something must be done to remedy it.

It is also agreed that the action taken should concentrate on reducing supply and the stocks held by the producers. Virtually everyone considers that there is no need to consider direct action on prices, as these should recover as an improved balance between supply and demand is established.

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As regards the attainment of the above objectives, the Commission is opposed to any move likely to lead to the setting-up of a cartel.

The Commission is of the opinion that the crisis in this sector is essentially cyclical in nature. However, as measures which could lead to freezing inappropriate structures should be avoided, the Commission will have a thorough study undertaken of the prospects for the zinc industry so that the information collected will enable it to check whether structural adjustments would be required.

III. The external aspect

As with all the non-ferrous metals, the zinc market is world-wide. A price concluded anywhere in the world has world-wide repercussions the very same day.

The zinc crisis is in no way restricted to the Community, a conclusion that has two implications:

- the first is that the Community cannot overcome this crisis either by protectionist measures, since the trend of its external trade is in its favour, or by unilateral measures, since these would affect only about a quarter of the world production and consumption of zinc;

- the second is that the Community must try to convince its major trading partners not to have recourse to protectionist measures but, on the contrary, to adopt a positive attitude to resolve a world-wide problem.

The American zinc producers have submitted a complaint to the International Trade Commission requesting the introduction of an import quota of 350 000 short tons for the next five years and the application of an additional customs duty of seven cents per pound (instead of the present most-favoured-nation tariff of 0.7 cents). This would represent a duty equivalent to approximately 27 % of current prices.

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If a decision was given in favour of the American producers, this would certainly have considerable adverse effects for the Community producers because this would considerably reduce their export possibilities (in 1977 the Community exported over 10 % of its production to the United States) but above all because a number of exporting countries (Canada, Norway, Finland, Spain) would certainly try to offload on the Community the quantities they could no longer export to the United States.

The International Trade Commission recently came to the conclusion, by five votes to one, that imports are not the cause of the damage suffered by the domestic zinc industry. However, protectionist tendancies persist.

In view of the extremely damaging consequences for European producers of a "protectionist" decision, it would still be desirable for the Community to have talks with the United States in the near future to have a favourable influence on any decision likely to be taken.

In addition, at the request of the Community[1)], the Standing Committee of the **International** Lead and Zink Study Group has called an extraordinary session of the Group, to be held in Vienna from 3 to 5 July, to examine in depth the world zinc situation and to study the action that might be considered.

In view of the fact that the Community requested the calling of this extraordinary session "as quickly as possible" it would be unfortunate if the Community had to participate without being able to indicate to its main partners what it intended to do itself to resolve the problem. The Community will only be able to convince its main trading partners to seek together the ways of overcoming the present difficulties in this sector if it establishes very quickly the policy it intends to pursue. Indeed, this forum is the only one in which it is possible for the Community to influence the decisions that will be taken by zinc producing third countries and its power of persuasion will very much depend on the cohesiveness of the positions adopted by the Member States.

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1) The Community statement is annexed hereto.

Conclusions

The Community cannot neglect the difficulties encountered by a sector which has an expanding domestic raw materials supply base, is fully competitive, as shown by its trade balance, is at the forefront of technological progress, as shown by its patents and licences balance, and is barely big enough to cover the requirements of Community consumers at normal times.

The Commission is opposed to any move likely to lead to the setting-up of a cartel.

It accordingly proposes that :

- the Community should take the appropriate steps bilaterally with the American authorities to convince them not to take safeguard measures;
- cooperation between the Member States' and the Commission's statistical departments should be improved so that the trend of imports from third countries can be followed with the required speed;
- a detailed study of the prospects for the zinc industry should be undertaken to determine whether the present crisis calls for structural adjustments in this sector.

Since this is a world-wide problem which the Community cannot resolve on its own, it should try, through a joint approach at the special meeting of the International Lead-Zinc Study Group on 3-5 July 1978, convened at the Community's request, to convince the main third country zinc producers' of the need to take an overall view of the situation in order, more particularly to prevent recourse to trade restrictive measures.

The Commission therefore wishes to consult the Member States on the analysis of the situation in this sector and on the measures which could be taken, in order to determine the position the Community should adopt at the International Study Group meeting.

Declaration delivered by the Danish representative on behalf of the European Community at the Standing Committee of the International Lead and Zinc Study Group on the 17th of April 1978.

Mister Chairman,

I take the opportunity offered by the present meeting of the Standing Committee of the International Lead and Zinc Study Group to convey to you and to all participants the great concern which the European Economic Community and its Member States share with regard to the present situation of the world Zinc market.

In spite of a slight improvement in demand over the last two years, price levels have deteriorated to a point where the Zinc industry, world wide, suffers losses of such magnitude that their persistence would seriously undermine the very existence of this essential industry.

This situation is by no means limited to the European Community. It is common to all countries represented here and affects mining as well as smelting operations.

Some countries may be tempted to seek refuge in protectionist measures and to resort to escape clauses. We believe that such actions could only aggravate present difficulties. Increased barriers to trade would most certainly impair the recovery in demand. We therefore, and let me remind you that the European Economic Community is a net importer of Zinc,

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have no intention of setting up import restrictions unless we get to the regrettable point where there are developments in the world trade in zinc that leave us no other choice.

But we think that prevailing conditions on the world zinc market command governments' attention.

For our part, we are searching for appropriate measures which would contribute towards ensuring a better balance between supply and demand and would thus lead to price levels permitting the survival of an otherwise sound and competitive community industrial sector, with due regard to consumers' interests. We would like other countries to share our concern, our objectives and our endeavours. In this spirit, we believe that the seriousness of the present situation calls for an extraordinary meeting of the International Lead and Zinc Study Group. Such a meeting should in our view, be convened as soon as possible so as to give every member of the Study Group the opportunity to fully assess the situation, and study the actions which might be contemplated.

In any case, it is our intention to inform the Study Group of actions which the European Community and its Member States might undertake in order to contribute to the stabilisation of the world Zinc market.

Let me thank you, Mister Chairman, for giving me this opportunity to inform the Standing Committee of the present views of the European Community.